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IMPROVING THE FINANCIAL SITUATION OF THE UNITED NATIONS

Report of the Secretary-General

Addendum

I. INTRODUCTION

1. The present report updates information on the financial situation of the United Nations previously provided in the Secretary-General's report of 16 December 1996 on the subject (A/51/515/Add.1). It provides an end-of-1996 review and information on the current financial situation of the United Nations as at the end of February 1997.

II. LEVEL OF ASSESSMENT

2. Regular budget assessments reflect an appropriation level that has been at zero nominal growth since 1994 and, based on the 1998-1999 budget outline, is projected to decrease in the biennium ahead. If the current trends in foreign exchange rates continue, 1998-1999 appropriations are likely to be lower than the outline for 1998-1999, which was prepared some months ago, with less favourable assumptions about exchange rates.

3. The appropriation for 1994-1995 was $2.608 million. The latest approved level for 1996-1997 is $2.603 million. The overall decrease of $5 million was achieved through real resource reductions of $210 million, offset by upward adjustments for inflation and foreign exchange fluctuations.

4. For 1998-1999, the General Assembly has approved a budget outline of $2,512 million at initial 1996-1997 rates, recosted to $2,480 million, based on the same price levels used in the latest approved level for the 1996-1997 budget. That amount is $123 million less than 1996-1997 at comparable prices and represents a real resource reduction. Assuming continuation of present

inflation and exchange rates, it appears likely that the United Nations will have a negative nominal growth budget for 1998-1999.

5. There was a sharp rise in peacekeeping assessment levels during the early 1990s, with peak years in 1993 through 1995, and a rapid fall-off in 1996, with 1997, at $1.2 billion, estimated to be somewhat less than in 1996. For the first time in a number of years the assessments for peacekeeping in 1997 will be below the level of appropriations for regular budget purposes.

6. With future cash inflows from new assessments heading down, the need to collect outstanding assessments becomes more important than ever.

III. STATUS OF CONTRIBUTIONS AT THE END OF 1996

7. At the end of 1996, unpaid assessed contributions totalled somewhat less than $2.2 billion, a decrease from the all-time high of $2.3 billion at the end of 1995. Despite that drop, the year-end 1996 level of unpaid assessed contributions is $400 million higher than 1994 and $600 million higher than 1993.

IV. REGULAR BUDGET

8. The amount of unpaid regular budget assessments at the end of 1996 is also down: $511 million related to the regular budget was owed at the end of 1996, compared with $564 million at the end of 1995, or a decrease of $53 million.

9. In 1996, the United Nations collected more for the regular budget than it assessed by way of new 1996 assessments. 1996 was the first year for some time in which the amount of regular budget collections significantly exceeded new assessments.

10. That improvement was also reflected in an increase to 98 in the number of Member States that had paid their regular budget assessments in full, compared with 94 at the end of 1995 and 75 at the end of 1994.

11. There was also a fall to 12 in the number of countries not making any payment to the regular budget in 1996, against 22 in 1995 and 39 in 1994, and a reduction to 61 in the number of countries owing more than their 1996 assessment at the end of the year, compared with 71 in 1995 and 75 in 1994.

12. The Secretary-General is most appreciative to those Member States which have, despite difficulties, made real progress in meeting their financial obligations to the United Nations and to their fellow Member States.

V. PEACEKEEPING

13. Aggregate peacekeeping assessments outstanding at the end of 1996 totalled $1.6 billion, against $1.7 billion at the end of 1995. This modest improvement reflects the first reduction in outstanding peacekeeping assessments since 1991.

The overall improvement was the result of a decrease of over $200 million in amounts outstanding for Member States other than the United States of America, and for the United States an increase of over $110 million.

14. From a financial management perspective, the reduction in peacekeeping arrears should have been greater and the modest overall decrease was a disappointment.

15. Peacekeeping assessments exceeded the amounts collected in each of the three peak years of peacekeeping activities - 1993, 1994 and 1995. During that three-year period, the cumulative amount of arrearage built up. Given the sudden and significant financial demands placed upon Member States for peacekeeping in 1993 through 1995, this was not surprising. However, in 1996, and despite a greatly reduced level of assessment, the payment shortfall of the preceding three years did not significantly reverse. Given the lesser demands on Member States in 1996, it had been hoped that payments would greatly exceed assessments. That degree of turnaround did not occur.

16. Outstanding peacekeeping assessments as a percentage of peacekeeping activity have gone up. Unpaid peacekeeping assessments at the end of 1995 were 54 per cent of that year's aggregate assessment. At the end of 1996 the unpaid amount was 116 per cent of 1996 peacekeeping assessments.

17. There is a discernible pattern in the overall picture of assessments unpaid during the period from 1985 to 1996. The pattern shows that assessments unpaid periodically become highly concentrated. In 1985 the United States portion of aggregate unpaid assessments was quite low; in 1996 it is very high.

18. As a percentage of aggregate unpaid assessments, the United States percentage was at a low of 17 per cent in 1985. At 31 December 1996, the United States owed 61 per cent of all outstanding assessments. During that period, outstanding United States assessments varied widely as a percentage of aggregate outstanding assessments. There was a rapid increase between 1985 and 1990, followed by even more rapid reduction in 1991 and 1992. The United States percentage of the aggregate fell to a low of between 25 and 30 per cent of the total in 1992 through 1994, then increased sharply to 54 per cent in 1995 and again sharply to 61 per cent in 1996.

19. Progressively, over the past years, the United States has made regular budget payments later than had been its previous practice. United States payments of United Nations assessments due on 31 January 1995 were made during the period from mid-1996 to early 1997, the last being made in January 1997, many months after the due date. As to those due on 31 January 1996, final payments for funds appropriated in 1996 have not yet been received.

VI. CASH SITUATION

20. Over a five-year period, that is, 1991-1996, there has been a discernible shift in the pattern of cash balances. In 1991 through 1994 there was a recurring, but usually minor and short-lived, negative cash position around September of each year.

21. In 1995 a new pattern began, and it became necessary to borrow extensively from peacekeeping funds, for five months of the year, to fund regular budget activities. The peak borrowing level was $200 million, which was also the amount borrowed at the end of the year. Both the length of time for which such borrowings were required and the amounts borrowed were unprecedented.

22. However, 1996 was worse. It was necessary to borrow for eight months, with a peak borrowing level over $300 million. The year ended with just under $200 million borrowed, virtually the same year-end position as at 31 December 1995.

23. With the beginning of 1997, new regular budget assessments totalling $1.1 billion were issued to Member States. Thirty Member States paid their new assessments in full and when due, that is, by 31 January.

24. As at 28 February 1997, a total of 40 Member States had paid their regular budget contributions in full (see annex), against 33 by the same date in 1996 and 27 in 1995.

25. The total of $555 million received for the regular budget compares with $383 million for the same period in 1996. The major factors in the improvement appears to be an earlier than usual payment by France of its 1997 contribution and a payment of $100 million by the United States.

26. The surge in cash, which began with the new year, will not carry on through the entire year. Unfortunately, a return to deep negative cash amounts later in the year is forecast. 1997 is expected to be just like 1996.

VII. PEACEKEEPING REIMBURSEMENTS

27. Failure to fund fully regular budget operations leads to a chain of imprudent financial management practices. Late payment by Member States of regular budget assessments leads to a negative regular budget cash position. A negative regular budget cash position leads to the need to borrow peacekeeping cash. This use of peacekeeping cash balances, together with the growth of peacekeeping arrearages, leads to the inability to pay in full peacekeeping obligations - principally the costs associated with the troops and equipment provided by Member States for those missions. The increase in unpaid troop and equipment obligations leads to a situation in which one group of Member States, awaiting payment for troops and equipment, are financing the late payment of regular budget and peacekeeping assessments by another group of Member States.

28. Accordingly, the level of peacekeeping obligations to Member States who provide troops and equipment for United Nations missions is the one variable in the United Nations financing picture. At 31 December 1996, the total debt to Member States for troops and equipment was estimated at $867 million, down from $1,155 million at year-end 1995, but up from $789 million in 1994.

29. The prompt payment of 1996 peacekeeping assessments by many Member States made possible periodic payments throughout 1996 totalling $350 million in troop and equipment obligations arising in 1996. Arrearage payments made by the

Russian Federation made possible a further $200 million reimbursement payment at the end of 1996. Nevertheless, at the end of 1996 a substantial amount of debt remained to 69 Member States for troops and equipment.

30. As for 1997, it is hoped that any further increase in troop and equipment obligations will be contained through the prompt collection during the year of current peacekeeping assessments.

31. Any further reduction in the year-end level of obligations will need to await substantial arrearage payments, primarily peacekeeping, but also regular budget arrears, given the need to retain peacekeeping cash balances as a safety valve for regular budget cash shortfalls.

VIII. CONCLUSION

32. The Organization is totally dependent on prompt assessments and prompt payment of assessments to achieve financial viability. The Secretary-General appeals to all Member States for their best efforts to put the Organization back on a solid, reliable financial footing. Only Member States can achieve this.

ANNEX

Status of payments by Member States of 1997 regular budget assessments

A. Member States whose regular budget contributions for 1997 were received in full by 31 January 1997

Australia
Austria
Bahrain
Canada
Czech Republic
Denmark
Egypt[a]
Fiji
Finland
Iceland
India[a]
Ireland
Italy
Kuwait
Liechtenstein
Luxembourg
Malaysia
Micronesia (Federated States of)
Malta
Netherlands
New Zealand
Norway
Republic of Korea
Singapore
Slovakia
Slovenia
South Africa
Sri Lanka
Sweden
Thailand

B. Member States whose regular budget contributions for 1997 were received in full in February 1997

Brunei Darussalam
Colombia
Cyprus
France
Monaco
Namibia
Palau
Poland
Samoa
Spain

C. Member States that made partial payment of their regular budget contributions for 1997 in January and February 1997

Algeria
Bahamas
Chile
Côte d'Ivoire
Germany
Kenya
Lesotho
Morocco
Pakistan
Panama
Portugal
Saint Lucia
Turkey
Uganda
United Kingdom of Great Britain and Northern Ireland

Notes

[a] Receipt of contributions only confirmed after 31 January.